

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED

MEXICO CITY OFFICE


MELCHOR OCAMPO 171, MEXICO 17, D. F.

TORONTO OFFICE

26TH FLOOR, COMERCE COURT WEST, TORONTO 1 CANADA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1973



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BOARD OF DIRECTORS:

LIC. JOSE LOPEZ PORTILLO, Chairman
Secretary of Treasury and Public Credit of Mexico.

LIC. ARSENIO FARELL, President of the Company
Director General of Compañía de Luz y Fuerza del Centro, S. A.
and Comisión Federal de Electricidad.

LIC. GUSTAVO ROMERO KOLBECK,
Director General of Nacional Financiera, S. A.

LIC. FERNANDO RAFFUL MIGUEL,
Undersecretary of National Patrimony.

LIC. MIGUEL DE LA MADRID, Director General of Credit of
the Ministry of Treasury and Public Credit of Mexico.

LIC. JORGE TAMAYO, Subdirector General
of Compañía de Luz y Fuerza del Centro, S. A.

SECRETARY OF THE BOARD: Lic. Daniel Castaño A.

TRANSFER AGENTS:

National Trust Company, limited
Toronto and Montreal

TRUSTEE OF FIRST MORTGAGE BONDS
AND CUMULATIVE INCOME DEBENTURES: National Trust Company, Limited

AUDITORS:

Mario Suárez del Real

May 30, 1974

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AUDITORS' REPORT

To the Shareholders of

The Mexican Light and Power Company, Limited.

We have examined the consolidated balance sheet of The Mexican Light and Power Company, Limited and Subsidiary Companies as at December 31, 1973, and the related statements of consolidated profit and loss, movement in shareholders' investment, and source and application of funds. Our examination was made in accordance with generally accepted auditing standards including, consequently, test of the documents, books and accounting entries and other generally accepted auditing standards, which we considered necessary in the circumstances.

The Company has not completed the study which would enable us to evaluate the reasonableness of the reserve of 16.4 million Mexican Pesos for inventories at December 31, 1973.

Except for the possible effect of the matter mentioned in the preceding paragraph, in our opinion, the attached financial statements fairly present the financial position of the Mexican Light and Power Company, Limited and Subsidiary Companies as of December 31, 1973, the results of their operations and the source and application of their funds for the year ending on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the fact, that beginning 1973, the Company capitalized certain salaries and social benefits amounting to 202.4 million Mexican Pesos, directly identified with work in process, and which, in prior years had been considered as chargeable to operations. Had the same basis been maintained as in prior years, the loss of the period would have been greater by that amount.

Mario Suarez del Real
Public Accountants

Mexico, D. F.
May 27, 1974

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

Consolidated Balance Sheet as at December 31, 1973

With comparative figures as at December 31, 1972

In Mexican Currency (Millions of Pesos)

ASSETS		
Fixed:	1973	1972
Property, Plant and equipment (Notes 3 and 4)	\$ 8,215.8	\$ 7,067.5
Less: Accrued depreciation and amortization	<u>2,208.9</u>	<u>2,024.7</u>
	\$ 6,006.9	5,042.8
Work in progress, at cost	922.0	1,024.9
Stores for construction, at cost	<u>67.8</u>	<u>73.8</u>
	<u>\$ 6,996.7</u>	<u>\$ 6,141.5</u>
Current:		
Cash	\$ 33.9	\$ 159.1
Consumers' accounts and notes receivable, net	724.3	508.7
Materials and supplies, at cost, not above market value, net	130.9	119.4
Debtors, claims and other current assets	268.3	137.3
Loans to employees	147.8	134.7
Insurance and other prepaid expenses	<u>—</u>	<u>42.9</u>
	<u>\$ 1,305.2</u>	<u>\$ 1,102.1</u>
Other:		
Loans to employees	\$ 545.2	\$ 590.3
Investments in securities, at cost	2.2	1.8
Notes receivable	14.0	0.3
Prepaid expenses and other non-current assets (Note 2)	<u>240.9</u>	<u>103.4</u>
	<u>\$ 802.3</u>	<u>\$ 695.8</u>
On behalf of the Board:		
José López Portillo, Director		
Arsenio Farell, Director	<u>\$ 9,104.2</u>	<u>\$ 7,939.4</u>

LIABILITIES

	1973	1972
Long Term (Notes 2 and 9)	\$ 4,978.4	\$ 4,157.3
Current:		
Current portion of long term debt	\$ 436.9	\$ 477.7
Accounts payable to suppliers, contractors and others	357.4	208.0
Dividends declared	—	5.3
Accrued interest, wages and other expenses	154.4	100.3
Consumers' and other deposits	111.0	—
	<u>\$ 1,059.7</u>	<u>\$ 791.3</u>
Others: (Notes 3 and 5)		
Accrued for pensions	\$ 286.9	\$ 231.6
Accrued for separation payments	195.7	183.4
Accrued for employee insurance	21.3	14.5
Consumers and other deposits	—	117.1
	<u>\$ 503.9</u>	<u>\$ 546.6</u>
Contingencies (Note 7)		

SHAREHOLDERS' INVESTMENT

Capital Stock:		
Preferred shares		
Authorized and issued 852,598 shares having a par value of \$ 13.50 Can. Cy. per share (Note 6)	\$ 147.4	\$ 147.4
Common shares of no par value		
Authorized 5,000,000; issued 4,196,111	408.4	408.4
	<u>\$ 555.8</u>	<u>\$ 555.8</u>
Earned Surplus:		
Statutory reserve	\$ 46.6	\$ 44.8
Reinvestment reserve (Note 3)	944.7	944.7
Retained earnings (Note 3)	374.2	374.2
Unallocated income of previous years	(68.5)	42.5
Loss for the year, after allowing \$ 1.9 in 1972 and \$ 1.8 in 1973 for the statutory reserve	(6.7)	(111.0)
	<u>\$ 1,290.3</u>	<u>\$ 1,295.2</u>
	<u>\$ 1,846.1</u>	<u>\$ 1,851.0</u>
Consumers Cooperation Towards Fixed Assets (Not distributable under the Law of the Electric Industry)	\$ 716.1	\$ 593.2
	<u>\$ 9,104.2</u>	<u>\$ 7,939.4</u>

The attached notes form part of this statement.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

Statement of Consolidated Profit and Loss

for the Year Ended December 31, 1973

With comparative figures for the year ended December 31, 1972.

In Mexican Currency

	1973	1972
OPERATING REVENUE	\$ 2,979,978,874	\$ 2,659,777,736
OPERATING AND OTHER EXPENSES:		
Energy purchased	\$ 728,130,874	\$ 715,253,418
Fuel	129,802,746	92,097,353
Wages	661,706,726	673,965,812
Employee benefits	591,552,696	599,234,284
Other operating expenses	54,579,501	50,936,854
Other maintenance expenses	65,862,247	55,989,788
Administrative expenses	38,428,849	28,520,419
Taxes and duties	32,451,831	26,204,651
Provision for doubtful accounts	9,090,835	10,908,943
Provision for depreciation and amortization	197,087,302	167,000,946
Total operating and other expenses	\$ 2,508,693,607	\$ 2,420,112,468
NET OPERATING REVENUE	\$ 471,285,267	\$ 239,665,268
FINANCIAL COST	\$ 527,312,887	\$ 382,915,145
Less: Interest during construction	\$ 41,467,656	\$ 29,937,684
Less: Interest earned on immediatey realizable securities	431,430	5,818,399
Net Financial cost	\$ 485,413,801	\$ 347,159,062
	\$ (14,128,534)	\$ (107,493,794)
OTHER REVENUE AND (EXPENSES), NET	\$ 11,156,887	\$ (1,599,308)
PROVISION FOR EMPLOYEES, SHARE IN PROFITS ..	\$ 1,950,000	—
NET LOSS	\$ (4,921,647)	\$ (109,093,102)
APPROPRIATION TO THE STATUTORY RESERVE	1,759,572	1,940,124
NET LOSS FOR THE YEAR	\$ (6,681,219)	\$ (111,033,226)

AFTER ALLOWING FOR THE \$1.00 CANADIAN CURRENCY PER SHARE TO WHICH
THE PREFERRED SHARES ARE ENTITLED, THE NET LOSS IN 1973 WAS \$4.13
PER COMMON SHARE (A NET LOSS OF \$28.55 IN 1972)

The attached notes form part of this statement.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

Consolidated Statement of Movement of Shareholders' Investment
for the Year Ended December 31, 1973

IN MEXICAN CURRENCY

	Capital Stock	Statutory Reserve	Reinvestment Reserve	Retained Earnings	Unallocated Income (Loss) of Previous Years	Unallocated Surplus (Loss) for the Year
Balance at December 31, 1972	\$ 555,817,347	\$ 44,808,857	\$ 944,677,863	\$ 374,249,718	\$ 42,487,629	\$ (111,033,326)
Transfer of net loss for 1972					(111,033,226)	111,033,226
Net loss for the year ended December 31, 1973 as per consolidated profit and loss statement, allow- ing for the appropriation to the statutory reserve .		1,759,572				(6,681,219)
Balance as at December 31, 1973	\$ 555,817,347	\$ 46,568,429	\$ 944,677,863	\$ 374,249,718	\$ (68,545,597)	\$ (6,681,219)

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (NOTE 1)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for the year ended December 31, 1972)

IN MEXICAN CURRENCY

	1973	1972
SOURCE OF FUNDS		
From operations:		
Net income(loss)for the year	\$ (4,921,647)	\$ (109,093,102)
Provisions for: Depreciation and amortization	197,087,302	167,000,946
Pensions	230,923,467	204,043,858
Separation payments	45,552,251	45,612,193
Employees' insurance	10,587,000	8,527,000
	<u>\$ 479,228,373</u>	<u>\$ 316,090,895</u>
Cooperation from consumers toward fixed assets	250,387,015	131,857,752
	<u>\$ 729,615,388</u>	<u>\$ 447,948,647</u>
From other sources:		
Long term credits from:		
Comisión Federal de Electricidad and Nacional Financiera, S. A.	\$ 1,521,307,455	\$ 1,341,287,198
Desarrollo Urbano de México, S. A.	35,852,127	—
Decrease in loans to employees	45,081,995	—
Net contribution of employees to insurance	982,878	5,937,774
	<u>\$ 1,603,224,455</u>	<u>\$ 1,347,224,972</u>
Funds available	<u>\$ 2,332,839,843</u>	<u>\$ 1,795,173,619</u>
APPLICATION OF FUNDS		
Addition to properties, plant and equipment	\$ 1,186,232,423	\$ 1,045,154,775
Net increase in other assets:		
Loans to employees	—	15,117,133
Trust fund for employees (housing project)	14,011,196	—
Prepayments and others	94,696,848	61,395,775
Reduction in long-term liabilities	736,089,978	452,485,174
Payments for: Pensions	175,662,628	141,905,959
Separations	33,212,621	42,786,552
Employees' insurance	4,701,019	—
Reduction in unallocated surplus:		
Preferred share dividends	—	10,870,625
Adjustment of the employees' share in profits	—	(360,000)
Funds used	<u>\$ 2,244,606,713</u>	<u>\$ 1,769,355,993</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 88,233,130</u>	<u>\$ 25,817,626</u>

IN MEXICAN CURRENCY

CHANGES IN WORKING CAPITAL

() denotes decrease

	1973	1972
Cash	\$ (125,192,926)	\$ 22,277,425
Consumer's accounts and notes receivable, net	215,681,862	111,804,970
Materials and supplies at cost, not above market value, net	5,047,568	30,280,811
Debtors, claims and other current assets	130,979,020	(18,254,481)
Loans to employees, current portion	13,049,066	23,687,819
Accounts payable to suppliers, contractors and others	(149,364,855)	(79,221,034)
Dividends declared	5,354,848	(28,506)
Current portion of long-term debt	40,718,354	(64,922,476)
Accrued interest, wages and other expenses	(54,161,997)	(14,095,213)
Consumers' deposits	<u>6,122,190</u>	<u>14,288,311</u>
Increase (reduction) in working capital	<u>\$ 88,233,130</u>	<u>\$ 25,817,626</u>

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1973.

IN MEXICAN CURRENCY

1) Bases for consolidation

The Mexican Light and Power Company, Limited is a Canadian corporation constituted under the laws of Canada and is authorized by the Mexican Government to operate in Mexico. The Federal Electricity Commission, of Mexico, is the owner of 98% of the outstanding common shares and of 81% of the preferred shares.

The attached financial statements include the operations of the Mexican Light and Power Company, Limited and its direct subsidiaries: Compañía Mexicana Hidroeléctrica y de Terrenos, S. A. and Compañía de Luz y Fuerza del Centro, S. A. All balances and transactions between these companies have been eliminated.

2) Translations of Currencies.

The operations in 1973 in foreign currencies were recorded in pesos at the rates of exchange in effect on the dates on which they were carried out, and the liabilities in foreign currency were converted into Mexican pesos at the official rate of exchange on December 31, 1973.

The Company follows the practice of deferring losses in exchange in proportion to the duration of the corresponding credits. At December 31, 1973 the deferred portion of the unrealized loss in exchange amounted to \$ 123.7 million.

3) Valuation of properties, plant and equipment.

In 1960 fixed assets were revalued on the basis of the values resulting from translation of Canadian dollar costs at the official rate of exchange in effect on December 31, 1960. This revaluation amounted to \$ 1,205 million pesos and is reflected in the following headings:

	<u>Million of Pesos</u>
Capital stock	\$ 533.4
Reserves for reinvestment and retained earnings	444.5
Accrued depreciation and amortization	122.6
Accumulated provision for pensions and other assets and liabilities	104.5
	<u>\$ 1,205.0</u>

The accrued amortization at December 31, 1973 corresponding to the revalued assets amounted to approximately \$ 632.3 millions pesos.

Additions subsequent to 1960 have been recorded at cost in Mexican pesos.

4) Bases for the calculation of depreciation and amortization.

Depreciation and amortization have been calculated by the straight line method using rates determined in accordance with the probable useful life in service of the assets, which are similar to those used by Comisión Federal de Electricidad and resulted from adopting studies carried out by the Federal Power Commission of the United States published in 1961, using the lowest rates in the studies.

5) Provisions for pensions, separation payments and employees insurance.

Based on actuarial studies of permanent employees and taking into account the provisions of the Collective Labor Contract, annual provisions to be charged to earnings have been determined in such a way that the provisions would be sufficient to meet the required payments over the next ten years.

6) Preferred shares.

These shares are entitled to an unlimited vote, a cumulative preferred dividend of \$ 1.00 Canadian currency per annum and \$ 16.50 Canadian currency per share on redemption or liquidation of the Company.

As operations for 1972 and 1973 resulted in losses, no dividends have been declared. Cumulative dividends pending payment at December 31, 1973 amounted to \$ 21.0 million.

The Company needs the approval of 75% of the preferred shares voting as a class in order to:

- a) Sell, rent or in any way dispose of or commit its assets or an important part of them
- b) Merge with another Company except a subsidiary.

7) Contingent liabilities.

In accordance with the Federal Labor Law of Mexico the Company has a contingent liability to indemnify employees who are fired under certain circumstances. The attached balance sheet includes no reserve for this contingency since the Company has followed the practice of charging such indemnities to the earnings of the years in which they are made.

8) Remuneration to officers of the Company.

The aggregate remuneration in 1973 to officers of the Company, of which two were also members of the Board of the Company, was \$ 1,200,000 Mexican currency. No remuneration was paid to directors of the Company who were not also officers thereof.

9) Long Terms Liabilities

<u>The Mexican Light and Power Company, Limited</u>		<u>Original Currency</u>	<u>Mexican Currency</u>
5% Series A Sinking Fund Bonds and Debenture Stock, semi-annual payments to 1975	US	1,066,480	\$ 13,331,000
	CAN	47,752	598,686
4.5% Series B serial Bonds, semi-annual maturities to 1975, guaranteed by the Mexican Government ...	US	2,689,000	33,612,500
7% Series D serial Bonds, semi-annual maturities to 1975	MEX		11,315,000
5.625% Series E serial Bonds, semi-annual maturities to 1977, guaranteed by the Mexican Government .	US	2,845,485	35,568,564
	CAN	224,000	2,808,378
6% Series F Sinking Fund Bonds, annual payments to 1983	US	2,749,000	34,362,500
Total First Mortgage Debt			<u>\$ 131,596,628</u>
5.5% Cumulative Income Debenture Stock, Annual Interest and Sinking fund of \$ 92,487 U.S. Guaranteed by a lien on fixed assets	US	2,466,530	<u>\$ 30,831,625</u>
Loans from Nacional Financiera, S. A. (subordinated to above)			
At 7%, semi-annual maturities to 1978	MEX		\$ 70,885,327
At 8%, semi-annual maturities to 1981	MEX		56,705,366
At 11.25%, a re-financing of the previous two with quarterly maturities to 1989	MEX		56,577,414
Total Subordinated Debt			<u>\$ 184,168,107</u>
Total Debt-The Mexican Light & Power Company, Limited			<u>\$ 346,596,360</u>
Compañía de Luz y Fuerza del Centro, S. A. (subordinated to Mortgage Bonds and Income Debenture Stock of the Mexican Light and Power Company, Limited)			
Comisión Federal de Electricidad:			
Loan Agreements			
At 8.755% annual maturities to 1979	GER	33,871,034	156,528,211
From 6% to 12.75%, serial maturities to 1997	US	127,114,694	\$ 1,588,933,677
At 12%, semi-annual maturities to 1983	MEX		1,106,223,829
At 12.5%, annual maturities from 1979 to 1985	MEX		337,500,000
At 8%, semi-annual maturities to 1983	MEX		12,075,704
Joint contracts with Comisión Federal de Electricidad and Nacional Financiera, S. A. Subsidiary to IBRD Loans.			

		<u>Original Currency</u>	<u>Mexican Currency</u>
436-ME at 5.5% and 6%, semi-annual maturities to 1985	US	12,076,000	150,950,000
544-ME from 5.7% to 7.69%, semi-annual maturities to 1988	VAR		187,430,100
659-ME from 7% to 7.5%, semi-annual maturities to 1990	VAR		590,440,542
834-ME at 7.25%, semi-annual maturities from 1977 to 1992	VAR		80,452,205
Sub-Total.—Comisión Federal de Electricidad ...	MEX		\$ 4,210,534,268
Less: unearned interest included in notes	VAR		703,866
			<u>\$ 4,209,830,402</u>
Notes to foreign banks:			
At 7.5%, serial maturities to 1979	US	2,350,000	\$ 29,375,000
At 13%, semi-annual maturities to 1977	US	15,000,000	187,500,000
At 12.5%, due 1975	US	15,939,462	199,243,273
At 12%, due 1979	US	16,100,920	201,261,500
Sub-Total foreign banks			<u>\$ 617,379,773</u>
Less: unearned interest included in notes	US	1,271,845	15,898,058
			<u>\$ 601,481,715</u>
Notes to Mexican Banks:			
At 10% and 12%, semi-annual maturities to 1976	MEX		\$ 235,550,000
At 8%, annual maturities to 1981	MEX		6,550,128
Sub-Total Mexican Banks			<u>\$ 242,100,128</u>
Less: unearned interest included in notes	MEX		18,018,430
			<u>\$ 224,081,698</u>
Notes payable to Desarrollo Urbano de México, S. A., non interest bearing, monthly maturities to 1978 .	MEX		<u>\$ 33,322,364</u>
Total Compañía de Luz y Fuerza del Centro, S. A.	MEX		<u>\$ 5,068,716,179</u>
CONSOLIDATED TOTAL	MEX		<u>\$ 5,415,312,539</u>
Less: Current portion of long term liabilities:			
The Mexican Light and Power Company, Limited .	MEX		\$ 54,376,486
Compañía de Luz y Fuerza del Centro, S. A.	MEX		382,516,210
			<u>\$ 436,892,696</u>
NET LONG TERM LIABILITIES			<u>\$ 4,978,419,843</u>

First Mortgage and Collateral Trust Bonds.

In accordance with the provisions of the indenture mortgage of February 1, 1950 and the Supplemental Indenture of March 28, 1955, the payment of principal and interest on the first mortgage and collateral trust bonds is guaranteed by a mortgage on properties, plant and equipment installed on December 31, 1953 and which were then valued at \$726 million pesos, and by a mortgage on all additions permanently incorporated to the mortgaged property. As an additional guarantee, as provided by the Indenture of Mortgage of February 1, 1950, the Company and its subsidiary have agreed, subject to receiving prior authorization from Mexican Governmental authorities as required and in accordance with the provisions of the aforementioned Indenture, to constitute a mortgage at any time on any or all other immovable properties they may possess or acquire in the future.

Restrictions in accordance with the loan signed with the International Bank for Reconstruction and Development.

The Company has committed itself, among other things, that unless it obtains the consent of the Bank:

- a) It will not declare or pay any dividend or make any other distribution on its common shares (except stock dividends) if after considering such dividend or distribution the total amount of such payments and the payment of dividends on preferred shares made subsequent to December 31, 1956 should exceed by more than \$6,000,000 US currency the total net consolidated profits obtained by the Company and its subsidiaries and available for dividends subsequent to December 31, 1956.
- b) It will not redeem nor purchase any shares of its capital stock nor 5.5% Cumulative Income Debentures, (except for such part of the latter which are retired from circulation through the operation of the sinking fund) unless it does so with proceeds from the sale of shares and, in the case of the 5.5% income debenture stock, with the proceeds of the sale of income debenture stock which do not confer more favorable conditions on its holders than the existing 5.5% Income Debentures.
- c) It will not incur any debt if the net remainder from operations of the Electric Sector (the Company, its subsidiaries, and Comisión Federal de Electricidad and its subsidiaries) (increased by the amount of the tax on consumption of electric energy) obtained during the financial period immediately preceeding (or any preceding period of 12 consecutive months, whichever is greater) is less than 1.4 times the largest amount of the total amortization on long-term debt of the electric sector in future year or years.
- d) It will not sell or dispose in any manner of any of its properties or other assets which are needed to carry out efficiently its operations unless it first pays or redeems or makes provisions satisfactory to the Bank for the balance of the loans outstanding.
- e) It will not assume liabilities with a guarantee on any of its assets; in case of non-observance of this restriction provisions satisfactory to the Bank must be immediately created to assure

the payment of principal, interest and other charges arising from the credit granted by the Bank.. This restriction will not be applicable to those credits which have a specific lien on those assets acquired with the credit itself and to pay liability arising in the normal course of operations whose maturity is not greater than one year.

Key to currencies

MEX	Mexican pesos
US	American dollars
CAN	Canadian dollars
GER	German Marks
VAR	Various currencies.

10) Capitalization of salaries.

Beginning in 1973 the policy of capitalizing salaries directly identified with work in process was amended to include those considered as indirect labor charges. As a result, charges to fixed assets were increased by \$ 202.4 million Mexican pesos with the corresponding effect in operating costs.

AUDITORS' REPORT

To the Shareholders of

The Mexican Light and Power Company, Limited.

We have examined the consolidated balance sheet of The Mexican Light and Power Company, Limited and Subsidiary Companies as at December 31 1973, and the related statements of consolidated profit and loss, movement in shareholders' investment, and source and application of funds in Canadian Currency. Our examination was made in accordance with generally accepted auditing standards including, consequently, test of the documents, books and accounting entries and other generally accepted auditing standards, which we considered necessary in the circumstances.

The Company has not completed the study which would enable us to evaluate the reasonableness of the reserve of 1.3 million Canadian Dollars for inventories at December 31, 1973.

Except for the possible effect of the matter mentioned in the preceding paragraph, in our opinion, the attached financial statements fairly present the financial position of the Mexican Light and Power Company, Limited and Subsidiary Companies as of December 31, 1973, the results of their operations and the source and application of their funds for the year ending on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the fact, that beginning 1973, the Company capitalized certain salaries and social benefits amounting to 16.1 million Canadian Dollars, directly identified with work in process, and which, in prior years had been considered as chargeable to operations. Had the same basis been maintained as in prior years, the loss of the period would have been greater by that amount.

Mario Suarez del Real
Public Accountants

Mexico, D. F.
May 27, 1974

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

Consolidated Balance Sheet as at December 31, 1973

With comparative figures as at December 31, 1972

IN CANADIAN CURRENCY

ASSETS		
Fixed:	1973	1972
Property, Plant and equipment	\$ 655,308.0	\$ 578,523.4
Less: Accrued depreciation and amortization	176,188.0	166,345.6
	<u>479,120.0</u>	<u>412,177.8</u>
Work in progress, at cost	73,536.7	83,694.0
Stores for construction, at cost	5,416.5	5,883.6
	<u>\$ 558,073.2</u>	<u>\$ 501,755.4</u>
Current:		
Cash	\$ 2,707.3	\$ 12,677.4
Consumers accounts and notes receivable, net	57,773.8	40,521.2
Materials and supplies, at cost, not above market value, net	10,438.4	9,511.8
Debtors, claims and other current assets	21,396.9	10,936.5
Loans to employees	11,786.1	10,732.1
Insurance and other prepaid expenses	—	3,415.9
	<u>\$ 104,102.5</u>	<u>\$ 87,794.9</u>
Other:		
Loans to employees	\$ 43,484.8	\$ 47,023.2
Investments in securities, at cost	174.6	147.0
Notes receivable	1,117.5	23.9
Prepaid expenses and other non-current assets (Note 3)	19,214.8	8,235.0
	<u>\$ 63,991.7</u>	<u>\$ 55,429.1</u>
On behalf of the Board:		
José López Portillo, Director		
Arsenio Farrell, Director	<u>\$ 726,167.4</u>	<u>\$ 644,979.4</u>

LIABILITIES

	1973	1972
Long Term (Note 9)	\$ 397,085.5	\$ 331,058.1
Current:		
Current portion of long term debt	\$ 34,847.2	\$ 38,033.2
Accounts payable to suppliers, contractors and others	28,506.0	16,572.3
Dividends declared	—	426.3
Accrued interest, wages and other expenses	12,319.4	7,987.5
Consumers and other deposits	8,851.2	—
	<u>\$ 84,523.8</u>	<u>\$ 63,019.3</u>
Others: (Note 5)		
Accrued for pensions	\$ 22,881.9	\$ 18,451.7
Accrued for separation payments	15,610.8	14,608.6
Accrued for employee insurance	1,701.6	1,152.3
Consumers and other deposits	—	9,328.1
Differences from translation of foreign currencies	—	14,332.6
	<u>\$ 40,194.3</u>	<u>\$ 57,873.3</u>
Contingencies (Note 7)		
SHAREHOLDERS' INVESTMENT		
Capital Stock:		
Preferred shares		
Authorized and issued 852,598 shares having a par value of \$ 13.50 Can. Cy. per share (Note 6)	\$ 11,510.1	\$ 11,510.1
Common shares of no par value		
Authorized 5,000,000; issued 4,196,111	31,928.2	31,928.2
	<u>43,438.3</u>	<u>43,438.3</u>
Earned Surplus:		
Statutory reserve	\$ 4,229.6	\$ 4,089.3
Reinvestment reserve	63,953.3	63,953.3
Retained earnings	37,217.9	37,217.9
Unallocated income of previous years	(3,850.4)	3,961.5
Loss for the year, after allowing \$ 1.9 in 1972 and \$ 1.8 in 1973 for the statutory reserve	(532.9)	(9,734.3)
	<u>\$ 101,017.5</u>	<u>\$ 99,487.7</u>
	<u>\$ 144,455.8</u>	<u>\$ 142,926.0</u>
Consumers Cooperation Towards Fixed Assets (Not distributable under the Law of the Electric Industry)	\$ 59,908.0	\$ 50,102.7
	<u>\$ 726,167.4</u>	<u>\$ 644,979.4</u>

The attached notes form part of this statement.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

STATEMENT OF CONSOLIDATED PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1973

With comparative figures for the year ended December 31, 1972

IN CANADIAN CURRENCY

	1973	1972
Operating Revenue	\$ 237,687,150	\$ 210,823,293
Operating and Other Expenses:		
Energy purchased	\$ 58,076,704	\$ 56,693,489
Fuel	10,353,243	7,299,959
Wages	52,778,624	53,420,889
Employee benefits	47,183,044	47,497,406
Other operating expenses	4,353,335	4,037,433
Other maintenance expenses	5,253,262	4,437,947
Administrative expenses	3,065,137	2,260,628
Taxes and duties	2,588,402	2,077,072
Provision for doubtful accounts	725,097	864,681
Provision for depreciation and amortization	15,719,950	13,670,673
Total operating and other expenses	\$ 200,096,798	\$ 192,260,177
Net Operating Revenue	\$ 37,590,352	\$ 18,563,116
Financial Cost	\$ 42,059,193	\$ 30,850,967
Less: Interest during construction	3,307,516	2,372,966
Less: Interest earned on immediately realizable securities	34,411	461,187
Net financial cost	\$ 38,717,266	\$ 28,016,814
Other Revenue and expenses net	\$ 889,889	(126,833)
Provision for Employees' Share in Profits	155,535	—
Net Profit (Loss) for the year	\$ (392,560)	\$ (9,580,531)
Appropriation to the statutory reserve	140,346	153,781
Surplus for the year, to be allocated	\$ (532,906)	\$ (9,734,312)

After allowing for the \$1.00 per share preferred dividend, the results in 1973 were a net loss of \$0.30 per common share (a net loss of \$2.08 per common share in 1972).

The attached notes form part of this statement.

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

Consolidated Statement of Movement of Shareholders' Investment
for the Year Ended December 31, 1973

IN CANADIAN CURRENCY

	Capital Stock	Statutory Reserve	Reinvestment Reserve	Retained Earnings	Unallocated Income (Loss) of Previous Years	Unallocated Surplus (Loss) for the Year
Balance at December 31, 1972	\$ 43,438,278	\$ 4,089,300	\$ 63,953,301	\$ 37,217,884	\$ 5,883,921	\$ (9,734,312)
Transfer of net loss for 1972					(9,734,312)	9,734,312
Net loss for the year ended December 31, 1973 as per consolidated profit and loss statement, allow- ing for the appropriation to the statutory reserve .		140,346				(532,906)
Balance as at December 31, 1973	\$ 43,438,278	\$ 4,229,646	\$ 63,953,301	\$ 37,217,884	\$ (3,850,391)	\$ (532,906)

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED
AND SUBSIDIARY COMPANIES (Note 1)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATIONS OF FUNDS FOR THE
YEAR ENDED DECEMBER 31, 1973

(With comparative figures for the year ended December 31, 1972)

IN CANADIAN CURRENCY

SOURCE OF FUNDS

From operations:	1973	1972
Net income (loss) for the year	\$ (392,560)	\$ (9,580,531)
Provisions for: Depreciation and amortization	15,719,950	13,670,673
Pensions	18,418,768	16,173,230
Separation payments	3,633,309	3,615,382
Employees' insurance	844,433	675,880
	<u>\$ 38,223,900</u>	<u>\$ 24,554,634</u>
Cooperation from consumers towards fixed assets	19,971,207	10,433,145
	<u>\$ 58,195,107</u>	<u>\$ 34,987,779</u>
From other sources:		
Long term credits from:		
Comisión Federal de Electricidad and Nacional Fi-		
nanciera, S. A.	\$ 121,341,542	\$ 106,817,463
Desarrollo Urbano de México, S. A.	2,859,614	—
Decrease in loans to employees	3,538,336	—
Net contribution of employees to insurance	78,396	476,442
Difference from translation of foreign currencies	—	1,099,680
	<u>\$ 127,817,888</u>	<u>\$ 108,393,585</u>
Funds available	<u>\$ 186,012,995</u>	<u>\$ 143,381,364</u>

APPLICATION OF FUNDS

Additions to properties, plant and equipment	\$ 82,710,162	\$ 82,656,791
Net increase in other assets:		
Loans to employees	—	974,201
Trust fund for employees (housing project)	1,117,552	—
Prepayments and others	7,567,596	4,856,226
Reduction in long-term liabilities	58,173,764	37,331,561
Payments for: Pensions	13,988,540	11,290,877
Separations	2,631,231	3,462,511
Employees' insurance	373,552	—
Differences from translation of foreign currencies	14,332,630	—
Reduction in unallocated surplus:		
Preferred share dividends	—	852,598
Adjustment of the employees' share in profits	—	(29,111)
Adjustment from translation of foreign currencies	(1,922,342)	—
Funds used	<u>\$ 178,972,685</u>	<u>\$ 141,395,654</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 7,040,310</u>	<u>\$ 1,985,710</u>

IN CANADIAN CURRENCY

CHANGES IN WORKING CAPITAL

() denotes decrease

	1973	1972
Cash	\$ (9,970,065)	\$ 1,719,958
Consumers' accounts and notes receivable, net	17,252,597	8,748,072
Materials and supplies at cost, not above market value, net	419,904	2,353,297
Debtors, claims and other current assets	10,460,429	(1,516,446)
Loans to employees, current portion	1,053,926	1,842,648
Accounts payable to supplies, contractors and other	(11,933,795)	(6,259,536)
Dividends declared	426,299	—
Current portion of long-term debt	3,186,027	(5,004,241)
Accrued interest, wages and other expenses	(4,331,927)	(1,088,867)
Consumers' deposits	<u>476,915</u>	<u>1,190,825</u>
Increase (reduction) in working capital	<u>\$ 7,040,310</u>	<u>\$ 1,985,710</u>

THE MEXICAN LIGHT AND POWER COMPANY, LIMITED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1973.

IN CANADIAN CURRENCY

1) Bases for consolidation

The Mexican Light and Power Company, Limited is a Canadian corporation constituted under the laws of Canada and is authorized by the Mexican Government to operate in Mexico. The Federal Electricity Commission, of Mexico, is the owner of 98% of the outstanding common shares and of 81% of the preferred shares.

The attached financial statements include the operations of the Mexican Light and Power Company, Limited and its direct subsidiaries: Compañía Mexicana Hidroeléctrica y de Terrenos, S. A. and Compañía de Luz y Fuerza del Centro, S. A. All balances and transactions between these companies have been eliminated.

2) Translations of Currencies.

As in previous years liabilities and profit and loss items which originated in currencies other than Canadian dollars were translated to Canadian dollars at the rate of \$ 12.5374 Mexican pesos = \$ 1.00 Canadian dollar, including the investment in properties; plant and equipment.

3) Deferred loss in exchange.

The Company follows the practice of deferring losses in exchange in proportion to the duration of the corresponding credits. At December 31, 1973 there were included under the item of pre-payments the amount of \$ 9.9 million.

4) Bases for the calculation of depreciation and amortization.

Depreciation and amortization have been calculated by the straight line method using rates determined in accordance with the probable useful life in service of the assets, which are similar to those used by Comisión Federal de Electricidad and resulted from adopting studies carried out by the Federal Power Commission of the United States published in 1961, using the lowest rates in the studies.

5) Provisions for pensions, separating payments and employees insurance.

Based on actuarial studies of permanent employees and taking into account the provisions of the Collective Labor Contract, annual provisions to be charged to earnings have been determined in such a way that the provisions would be sufficient to meet the required payments over the next ten years.

6) Preferred shares.

These shares are entitled to an unlimited vote, a cumulative preferred dividend of \$ 1.00 Canadian currency per annum and \$ 16.50 Canadian currency per share on redemption of liquidation of the Company.

As operations for 1972 and 1973 resulted in losses, no dividends have been declared. Cumulative dividends pending payment at December 31, 1973 amounted to \$ 1,705,198.

The Company needs the approval of 75% of the preferred shares voting as a class in order to:

- a) Sell, rent or in any way dispose of or commit its assets or an important part thereof.
- b) Merge with another Company except a subsidiary.

7) Contingent liabilities.

In accordance with the Federal Labor Law of Mexico the Company has a contingent liability to indemnify employees who are fired under certain circumstances. The attached balance sheet includes no reserve for this contingency since the Company has followed the practice of charging such indemnities to the earnings of the year in which they are paid.

8) Remuneration to officers of the Company.

The aggregate remuneration in 1973 to officers of the Company, of which two were also members of the Board of the Company, was \$ 95,714. No remuneration was paid to directors of the Company who were not also officers therest.

9) Long Terms Liabilities

<u>The Mexican Light and Power Company, Limited</u>		<u>Original Currency</u>	<u>Canadian Currency</u>
First Mortgage and Collateral Trust Bonds:			
5% Series A Sinking Fund Bonds and Debenture Stock, semi-annual payments to 1975	US	1,066,480	\$ 1,603,299
	CAN		47,752
4.5% Series B serial Bonds, semi-annual maturities to 1975, guaranteed by the Mexican Government ...	US	2,689,000	2,680,978
7% Series D serial Bonds, semi-annual maturities to 1975	MEX	11,315,000	902,500
5.625% Series E serial Bonds, semi-annual maturities to 1977, guaranteed by the Mexican Government .	US	2,845,485	2,836,997
	CAN	224,000	224,000
6% Series F Sinking Fund Bonds, annual payments to 1983	US	2,749,000	2,740,799
Total First Mortgage Debt			<u>\$ 10,496,325</u>
5.5% Cumulative Income Debenture Stock, Annual Interest and Sinking fund of \$ 92,487 U.S. Gua- ranteed by a lien on fixed assets	US	2,466,530	<u>\$ 2,459,172</u>
Loans from Nacional Financiera, S. A. (subordinated to above)			
At 7%, semi-annual maturities to 1978	MEX	70,885,327	\$ 5,563,910
At 8%, semi-annual maturities to 1981	MEX	56,705,366	4,522,897
At 11.25%, a re-financing of the previous two with quarterly maturities to 1989	MEX	56,577,414	4,512,691
Total Subordinated Debt			<u>\$ 14,689,498</u>
Total Debt-The Mexican Light & Power Company, Limited			<u>\$ 27,644,995</u>
Compañía de Luz y Fuerza del Centro, S. A. (subor- dinated to Mortgage Bonds and Income Debenture Stock of the Mexican Light and Power Company, Limited)			
Comisión Federal de Electricidad:			
Loan Agreements			
At 8.755% annual maturities to 1979	GER	33,871,034	\$ 12,484,902
From 6% to 12.75%, serial maturities to 1997	US	127,114,694	\$ 126,735,501
At 12%, semi-annual maturities to 1983	MEX	1,106,223,829	88,233,910
At 12.5%, annual maturities from 1979 to 1985	MEX	337,500,000	26,919,457
At 8%, semi-annual maturities to 1983	MEX	12,075,704	963,175
Joint contracts with Comisión Federal de Electricidad and Nacional Financiera, S. A. Subsidiary to IBRD Loans.			

436-ME at 5.5% and 6%, semi-annual maturities to 1985	US	12,076,000	\$ 12,039,976
544-ME from 5.7% to 7.69%, semi-annual maturities to 1988	VAR		14,949,679
659-ME from 7% to 7.5%, semi-annual maturities to 1990	VAR		47,094,337
834-ME at 7.25%, semi-annual maturities from 1977 to 1992	VAR		6,416,977
Sub-Total.—Comisión Federal de Electricidad ...	MEX		\$ 335,837,914
Less: unearned interest included in notes	VAR		56,141
			<u>\$ 335,781,773</u>
Notes to foreign banks:			
At 7.5%, serial maturities to 1979	US	2,350,000	\$ 2,342,990
At 13%, semi-annual maturities to 1977	US	15,000,000	14,955,254
At 12.5%, due 1975	US	15,939,462	15,891,913
At 12%, due 1979	US	16,100,920	16,052,890
Sub-Total foreign banks			\$ 49,243,047
Less: unearned interest included in notes	US	1,271,845	1,268,051
			<u>\$ 47,974,996</u>
Notes to Mexican Banks:			
At 10% and 12%, semi-annual maturities to 1976	MEX	235,550,000	\$ 18,787,787
At 8%, annual maturities to 1981	MEX	6,550,000	522,447
Sub-Total Mexican Banks			\$ 19,310,234
Less: unearned interest included in notes	MEX	18,018,430	1,437,174
			<u>\$ 17,873,060</u>
Notes payable to Desarrollo Urbano de México, S. A., non interest bearing, monthly maturities to 1978 .	MEX	33,322,364	\$ 2,657,837
Total Compañía de Luz y Fuerza del Centro, S. A.	MEX		\$ 404,287,666
CONSOLIDATED TOTAL	MEX		<u>\$ 431,932,661</u>
Less: Current portion of long term liabilities:			
The Mexican Light and Power Company, Limited .	MEX		\$ 4,337,142
Compañía de Luz y Fuerza del Centro, S. A.	MEX		30,510,011
			<u>\$ 34,847,153</u>
NET LONG TERM LIABILITIES			<u>\$ 397,085,508</u>

First Mortgage and Collateral Trust Bonds.

In accordance with the provisions of the indenture mortgage of February 1, 1950 and the Supplemental Indenture of March 28, 1955, the payment of principal and interest on the first mortgage and collateral trust bonds is guaranteed by a mortgage on properties, plant and equipment installed on December 31, 1953 and which were then valued at \$ 726 million pesos, and by a mortgage on all additions permanently incorporated to the mortgaged property. As an additional guarantee, as provided by the Indenture of Mortgage of February 1, 1950, the Company and its subsidiary have agreed, subject to receiving prior authorization from Mexican Governmental authorities as required and in accordance with the provisions of the aforementioned Indenture, to constitute a mortgage at any time on any or all other immovable properties they may possess or acquire in the future.

Restrictions in accordance with the loan signed with the International Bank for Reconstruction and Development.

The Company has committed itself, among other things, that unless it obtains the consent of the Bank:

- a) It will not declare or pay any dividend or make any other distribution on its common shares (except stock dividends) if after considering such dividend or distribution the total amount of such payments and the payment of dividends on preferred shares made subsequent to December 31, 1956 should exceed by more than \$ 6,000,000 US currency the total net consolidated profits obtained by the Company and its subsidiaries and available for dividends subsequent to December 31, 1956.
- b) It will not redeem nor purchase any shares of its capital stock nor 5.5% Cumulative Income Debentures, (except for such part of the latter which are retired from circulation through the operation of the sinking fund) unless it does so with proceeds from the sale of shares and, in the case of the 5.5% income debenture stock, with the proceeds of the sale of income debenture stock which do not confer more favorable conditions on its holders than the existing 5.5% Income Debentures.
- c) It will not incur any debt if the net remainder from operations of the Electric Sector (the Company, its subsidiaries, and Comisión Federal de Electricidad and its subsidiaries) (increased by the amount of the tax on consumption of electric energy) obtained during the financial period immediately preceeding (or any preceding period of 12 consecutive months, whichever is greater) is less than 1.4 times the largest amount of the total amortization on long-term debt of the electric sector in future year or years.
- d) It will not sell or dispose in any manner of any of its properties or other assets which are needed to carry out efficiently its operations unless it first pays or redeems or makes provisions satisfactory to the Bank for the balance of the loans outstanding.
- e) It will not assume liabilities with a guarantee on any of its assets; in case of non-observance of this restriction provisions satisfactory to the Bank must be immediately created to assure

the payment of principal, interest and other charges arising from the credit granted by the Bank.. This restriction will not be applicable to those credits which have a specific lien on those assets acquired with the credit itself and to pay liability arising in the normal course of operations whose maturity is not greater than one year.

Key to currencies

MEX	Mexican pesos
US	American dollars
CAN	Canadian dollars
GER	German Marks
VAR	Various currencies.

10) Capitalization of salaries.

Begining in 1973 the policy of capitalizing salaries directly identified with work in process was amended to include those considered as indirect labor charges. As a result, charges to fixed assets were increased by \$16.1 million Canadian Dollars, with the corresponding effect in operating costs.

